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Internal audit and oversight

Report on internal audit and investigations

Summary

The present report provides information on the activities of the Office of Audit and Investigations (OAI), formerly Office of Audit and Performance Review, for the year ended 31 December 2007. In line with the Executive Board decision 2007/29, the report also contains an analysis of the key and recurrent management issues, the outcome of the risk-based audit planning, and the results of the OAI review of audit reports on projects executed by non-governmental organizations and/or national governments.

Elements of a decision

The Executive Board may wish to: (a) take note of the present report; and (b) express continuing support for strengthening the internal audit and investigation functions of UNDP.

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Introduction

1. The Office of Audit and Investigations (OAI) – formerly the Office of Audit and Performance Review – of UNDP, submits to the Executive Board its annual report on its internal audit and investigation activities for the year ended 31 December 2007. The office was renamed, effective 8 February 2008, to better reflect its two core functions, namely, internal audit and investigations.

2. In line with the Executive Board decision 2007/29, the report also contains an analysis of the key and recurrent management issues, the outcome of risk-based audit planning, and the results of evaluation of audit reports on projects executed by non-governmental organizations and/or national governments (NGO/NEX projects). As requested by the Board, the management response to this report is being presented separately.

I. Assurance in UNDP

Mandate of the Office of Audit and Investigations

3. In response to decision 2007/29, UNDP submitted to the Executive Board during its first regular session in January 2008 a report on the UNDP accountability system (DP/2008/16). That document included the enhanced oversight policy, describing how independent internal and external oversight was organized in UNDP to provide assurances to the Executive Board and the Administrator that functional systems of internal controls were in place in the organization. The policy outlines the institutional set-up of independent internal oversight, namely, audit and evaluation. Furthermore, it describes the internal audit and investigation responsibilities of OAI.

4. To carry out its mandate effectively, OAI exercises operational independence. The Director of OAI is directly accountable to the Administrator and independently submits to the Executive Board an annual report covering a summary of its observations and concerns. OAI conducts audits in accordance with the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics established by the Institute of Internal Auditors (IIA). Compliance with the IIA *Standards* is ensured through ongoing and periodic internal quality assessments. In 2007, an external quality assurance review of OAI was completed, as required by the *Standards*.[1] Furthermore, the Audit Advisory Committee[2] reviews the strategy, annual work plan, budget and annual report of OAI, and provides advice to promote the effectiveness of the audit and investigation functions in UNDP. The United Nations Board of Auditors (BOA), as external auditor of UNDP, also reviews the operations of OAI periodically, in order to place reliance on the work of OAI; this contributes to strengthening the internal audit function of UNDP. The purpose, responsibility, and overall operational framework of OAI were formalized in a charter that was approved by the Administrator on 8 February 2008.

5. OAI continues to liaise with other internal oversight services in the United Nations system, in particular with the Office of Internal Oversight Services of the United Nations and the internal oversight services of the United Nations specialized funds and programmes. OAI is an

[1] The external quality assurance review assessed the mandate, structure, activities, and resources of OAI against best practices in the internal audit industry. The review concluded that OAI generally conforms to the IIA code of ethics, and partially conforms to the IIA *Standards*. The recommendations resulting from this review are in various stages of implementation.

[2] As initiated by OAI, the Audit Advisory Committee was established in May 2005 and replaced the Management Review and Oversight Committee, with full external membership, and revised terms of reference aligned with best practices. The Audit Advisory Committee assists the Administrator in fulfilling his responsibilities regarding financial management and reporting, internal and external audit matters, risk management arrangements, and systems of internal controls and accountability.

active member of the United Nations Development Group Audit Working Group. It participates in the meetings of Representatives of Internal Audit Services of the United Nations and multilateral financial institutions, and of the Conference of International Investigators. These close working relationships result in sharing best practices and lessons learned, thus enhancing the internal audit and investigation functions of OAI.

Basis for providing independent assurance

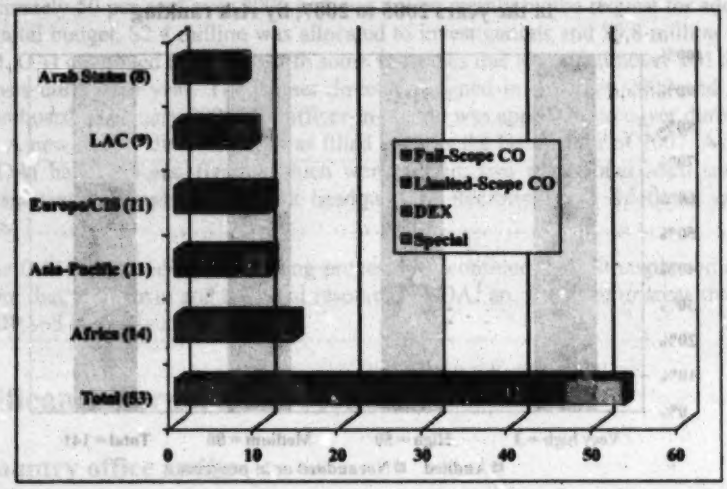
6. During the year ended 31 December 2007, OAI issued 58 internal audit reports[3], pertaining to five headquarters audits and 53 country office audits. The latter consisted of 34 full- or limited-scope audits, seven special audits, and 12 audits of directly executed (DEX) projects relating to a total of 43 country offices in five regions (see figure 1). While DEX projects are generally reviewed during the internal audits of country offices, separate audits are conducted in cases where the project expenditures are significant or the risk exposure could be considered high. Special audits are focused on specific issues, such as procurement, country office support to NGO/NEX projects, or follow-up on prior audit recommendations, particularly for country offices found deficient in previous audits.

7. The 34 full- or limited-scope internal audits covered country offices with total programme and management expenditures of about $1.4 billion (or 35 per cent of the total UNDP expenditures incurred at the country-office level in 2006, as shown in the records of the UNDP enterprise resource planning system, Atlas). The 12 audits of DEX projects conducted during the year covered expenditures totalling $134.2 million, and $15.1 million worth of project assets. The DEX projects were selected based on risk assessment and consultations between OAI and the country offices concerned. The audits were conducted by private audit firms on behalf of OAI, based on terms of reference developed by OAI.

8. At the request of UNDP senior management, OAI started providing a six-monthly summary of key issues from internal audits and investigations. The first such update was provided to the Operations Group during its meeting of 5 December 2007.

[3] This does not include four audits conducted by OAI for the United Nations Development Fund for Women (UNIFEM). Since 2006, OAI has been providing audit services to UNIFEM on a cost-recovery basis.

Figure 1. Number of country office reports issued in 2007, by scope

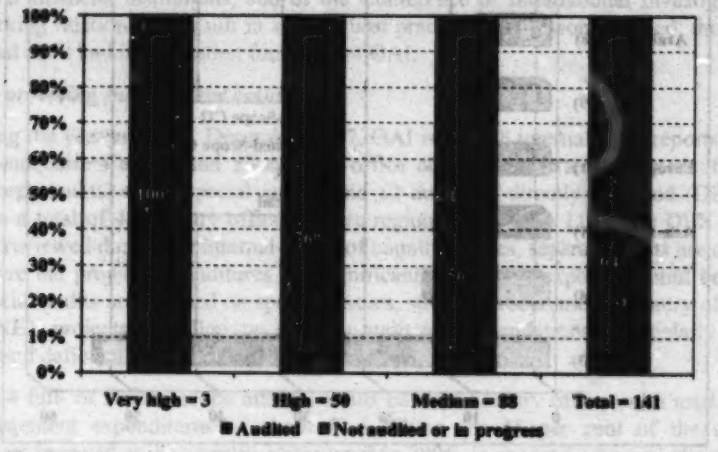


Note: LAC = Latin America and the Caribbean; CIS = Commonwealth of Independent States

II. Risk-based audit planning

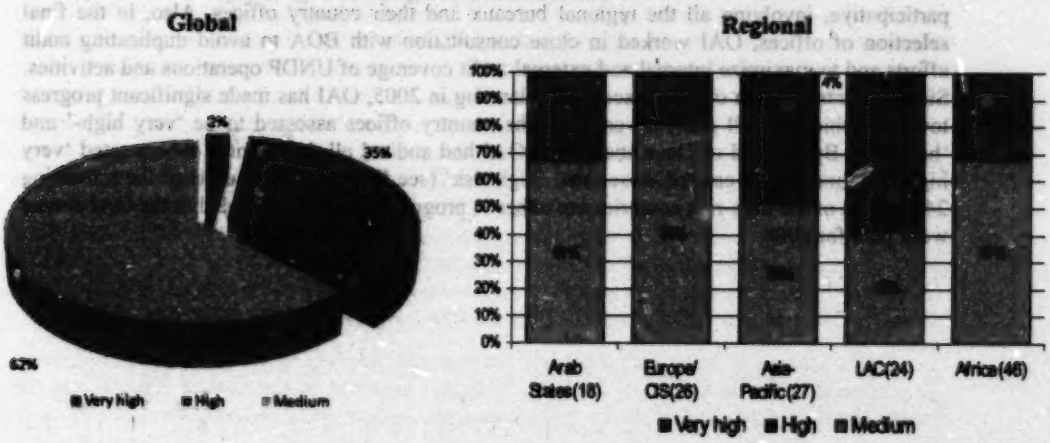
9. The IIA *Standards* require that audit engagements be based on risk assessment, undertaken at least annually. Thus, OAI selected the country offices to be audited in 2007 on the basis of the audit risk assessment conducted in late 2006. The audit risk assessment process was participative, involving all the regional bureaux and their country offices. Also, in the final selection of offices, OAI worked in close consultation with BOA to avoid duplicating audit efforts and to maximize internal and external audit coverage of UNDP operations and activities. Since the introduction of risk-based audit planning in 2005, OAI has made significant progress towards achieving full audit coverage of the country offices assessed to be 'very high-' and 'high-risk. By the end of December 2007, OAI had audited all the country offices rated 'very high-risk' and 76 per cent of those rated 'high-risk' (see figure 2). The audits of the remaining 24 per cent of the high-risk countries are either in progress or will be included in the OAI annual work plan for 2008.

Figure 2. Number of country offices covered in internal audits in the years 2005 to 2007, by risk ranking



10. During the last quarter of 2007, OAI conducted a new audit risk assessment for the purpose of the 2008 work plan for country office audits. The results showed that three (2 per cent) of the 141 offices assessed were ranked very high risk, 50 (35 per cent) were high risk and the remainder medium risk (see figure 3). Compared to the audit risk assessment results in 2006, there was no change in the risk ranking of 85 per cent of the offices.

Figure 3. Distribution of country offices, by risk category



Optimizing limited resources

11. The use of a risk-based audit planning methodology enables OAI to focus its resources on high-risk areas and helps to determine audit priorities in offices in programme countries. This approach assures UNDP management that adequate attention is given to significant and critical areas and enhances the opportunity for OAI to add value to country offices and to UNDP as a whole.

12. In 2007, OAI had an approved budget of $12.2 million. This represented an increase of approximately 50 per cent over 2006 and was driven mainly by the request for additional posts. Of the total budget, $2.4 million was allocated to investigations and $9.8 million was allocated to audit. OAI continued to operate with some vacancies due to staff turnover and the creation of new posts during the year. The former director resigned in February 2007 and the successor came on board in January 2008. An officer-in-charge was appointed to cover during the interim period. A new deputy director post was filled towards the last quarter of 2007. As of the end of 2007, OAI had 53 posts, five of which were vacant: two in regional audit services centres (Malaysia and Panama) and three at headquarters. Recruitment to fill those vacancies is in progress.

13. The OAI risk-based audit planning process will continue to be strengthened and improved to ensure that the human and financial resources of OAI are allocated to areas that matter most to UNDP and to the Executive Board.

III. Significant internal audit results

A. Country office audits

14. The internal audit of a country office generally covers activities in the following areas: (a) country-programme level; (b) management strategies; (c) partnerships and resource mobilization; (d) support to United Nations coordination; (e) development services; (f) human resources administration; (g) procurement and assets management; (h) financial resources; (i) general administration; (j) information technology and communications, (k) Atlas; (l) advocacy services; and (m) knowledge management.

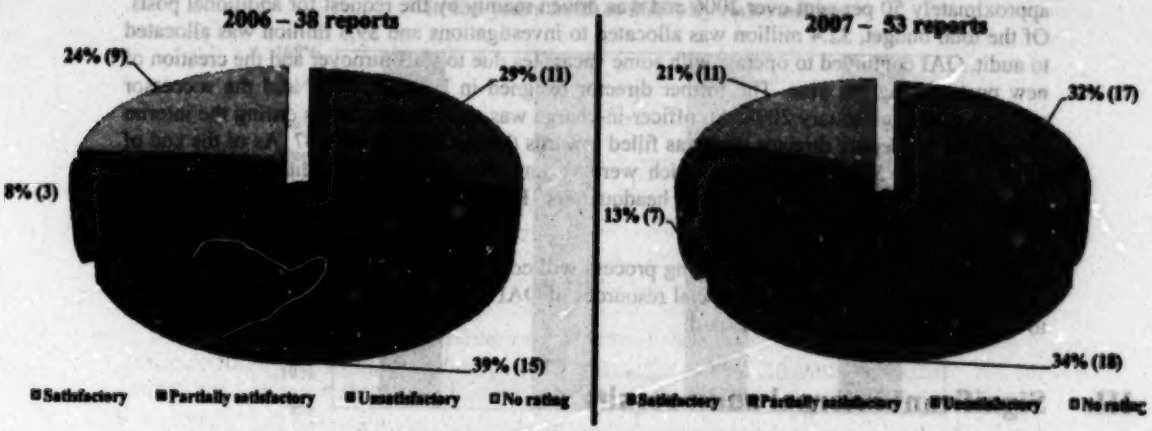
15. The 53 country-office audit reports issued in 2007 largely covered operations and activities of the offices for the year 2006. Consequently, the audit outcome reflects the UNDP operations in 2006. Based on the overall internal audit results, with 35 out of 53 audit reports having either 'satisfactory' or 'partially satisfactory' rating (see figure 4), the internal controls and risk-management practices were found to be generally established and functioning, but in need of improvement in some areas.

16. Seven audits resulted in an 'unsatisfactory' rating, meaning that internal controls and risk management practices were either not established or not functioning well. The majority of the issues identified in those seven audits were 'high-risk', thus jeopardizing the achievement of the country office objectives. A follow-up audit for most of those country offices is being scheduled for 2008. A total of 11 audit reports had no overall rating, since they belonged to such categories as special reviews or follow-up audits.

17. Compared with 2006, there was a 39 per cent increase in the number of reports issued, from 38 to 53. The results showed that the share of 'satisfactory' ratings increased, but so did the 'unsatisfactory' ratings. This should not, however, be taken as indicative of trends, since the mix of country offices selected for audits varies from year to year. Since OAI audits are geared mainly towards 'very high-' and 'high-risk' country offices, where UNDP often operates in a weak institutional environment, OAI considers that a share of 13 per cent of 'unsatisfactory' ratings in the internal audit reports issued during 2007 should not be a major concern.

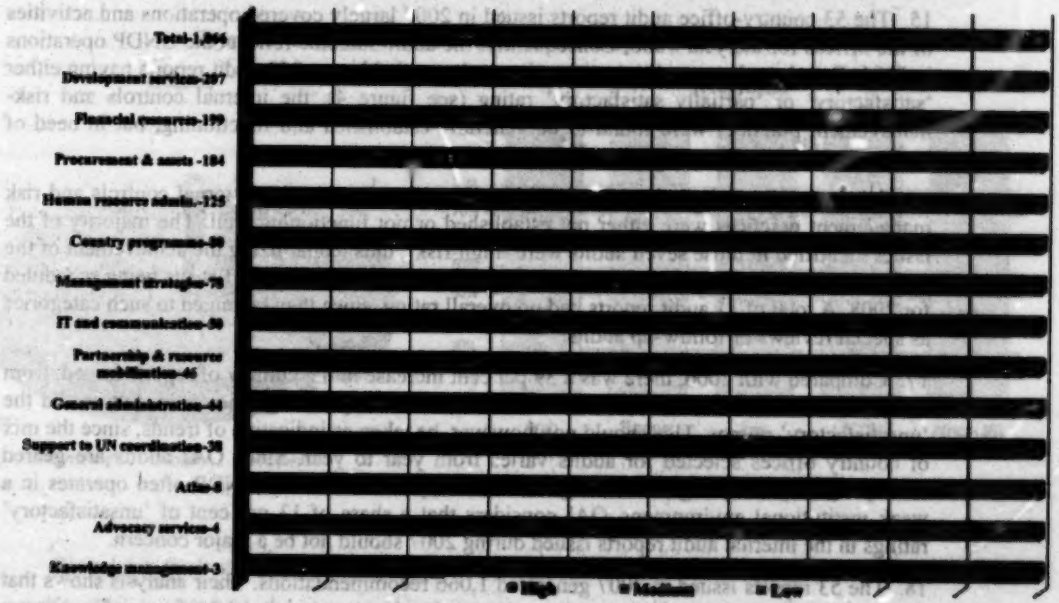
18. The 53 reports issued in 2007 generated 1,066 recommendations. Their analysis shows that the areas needing improvement were mostly: (a) development services; (b) financial resources; (c) procurement; and (d) human resources administration (see figure 5). For the seven country offices rated 'unsatisfactory, the weaknesses noted were mainly in the areas of overall strategic management, development services, human resources, and procurement.

Figure 4. Number of country-office reports issued in 2006 and 2007, by audit rating



19. Compared with audits in previous years, the areas needing the most improvement remained essentially the same. The main audit issues continued to be failure to comply with prescribed regulations, rules and procedures, and inadequate supervision by the country office managers and/or regional bureaux.

Figure 5. Distribution and prioritization of country office audit recommendations in 2007 reports



Key and most recurrent audit issues

20. *Development services.* Seventeen audit reports noted that project monitoring and evaluation required improvement, as there was no regular monitoring plan, project monitoring tools were not used, or relevant guidelines were not being followed. In 15 audit reports, the system for monitoring and follow-up on NGO/NEX audits was reported to be weak, resulting in an inadequate audit scope; delayed submission of NGO/NEX audit reports; and poor implementation of NGO/NEX audit recommendations. In 11 audit reports, the project design, appraisal and approval process was noted to be insufficient, since neither the local programme advisory committee, nor the beneficiaries, nor other key stakeholders were included in the appraisal process.

21. *Financial resources.* Bank reconciliation issues were raised in 14 audit reports, including delays in performing bank reconciliations; insufficient frequency of the reconciliation process; and incomplete or missing bank reconciliations. In nine audit reports, some transactions or payments were identified as having incomplete supporting documentation. Accounting controls required strengthening, as noted in seven audit reports that described errors in recording transactions, wrong allocation of expenditures, or inconsistencies between reports and underlying records.

22. *Procurement and asset management.* Fourteen audit reports described instances of non- or only partial compliance with procurement rules, such as purchase orders that lacked supporting documents, contracts not in accordance with the required format, and a failure to follow contracting guidelines. The Contracts, Assets, and Procurement Committees were noted to have been ineffective in 11 audit reports, as some members were unclear about their roles and responsibilities. In five audit reports, there were issues raised regarding the delegation of procurement authority, such as delegation of authority to a non-UNDP individual, non-compliance with the requirements for increased delegation of authority, re-delegation of authority without approval, or signature of contracts by persons lacking the delegated authority. The capacity for undertaking the procurement function was described as "weak" in five audit reports. With regard to asset management, there were misstatements in the inventory list; outdated fixed assets registers; incomplete documentation supporting physical inventory; or a failure to adjust for lost items, as noted in eight audit reports.

23. *Human resources administration.* Sixteen audit reports described weaknesses in the recruitment of personnel, such as non-transparent and non-competitive recruitment processes; inadequate documentation to support recruitment; lack of reference checking; excessive use of waivers of competitive recruitment processes; and non-compliance with other human resources rules. The performance evaluation system needed improvement, as was noted in eight reports with midterm reviews either not undertaken or insufficiently documented. The Appointment and Promotion Panel was either non-existent or not functioning well according to the descriptions in seven audit reports.

Audit of directly executed projects

24. During the year, 12 audits of DEX projects in four regions were completed (six in Asia and the Pacific, three in Europe and the Commonwealth of Independent States, two in the Arab States and one in Latin America and the Caribbean). In most instances, the private auditors found that the combined-delivery reports fairly presented the expenditures of the DEX projects audited and thus issued an unqualified opinion. The private auditors issued a qualified opinion in a number of cases where they were unable to verify the project assets physically, or where they noted inaccuracies in the project records. OAI calculated that the financial impact of the qualifications relating to project expenditures was approximately 0.4 per cent of the audited total project expenditures of $134.2 million. Nonetheless, the audit findings in these cases were not sufficiently material and pervasive to warrant an adverse opinion or a disclaimer of opinion.

Follow-up on country office audit recommendations

25. OAI conducts twice-yearly desk reviews of the implementation status of audit recommendations based on updates provided by the country offices. The implementation rate for each country office, as calculated by OAI, is published as one of the indicators in the UNDP 'balanced scorecard'.

26. As of 31 December 2007, the overall implementation rate was 93 per cent, on a rolling basis.[4] Since OAI instituted periodic follow-ups in 2005, it was noted that 45 (42 per cent) of the 106 audit reports issued between 1 January 2004 to 30 September 2007 had a 100 per cent implementation rate as of 31 December 2007.

27. A further analysis of the implementation rates, on a per audit report basis, showed that a 100 per cent implementation rate is achieved on average within 18 months after the issuance of the audit report. As of 31 December 2007, 34 recommendations, pertaining to 17 country offices, had remained unresolved for 18 months or more. The majority of those recommendations (26, or 76 per cent of the total) were ranked 'high priority' at the time of the audit. Most of them pertained to development services, partnership and resource mobilization, and management. A further analysis showed that the delay in the implementation was caused by lack of resources (time, staff or budget); interaction with external parties (such as other United Nations organizations and national counterparts); substantial time required to make major changes or improvements in an office environment; and shifting priorities of country office management. Other factors, beyond the control of the country office, were also noted, such as the political and economic situation in the country.

B. Headquarters audits

28. During the year, OAI issued five reports pertaining to the review of: the Treasury Division; the Bureau for Crisis Prevention and Recovery (BCPR); a DEX project executed by the Bureau for Development Policy; and two special reviews on counterfeit dollar bills. Two of the audit reports covering headquarters units had an audit rating of 'partially satisfactory', one was 'unsatisfactory', and two did not have an overall rating. The significant findings were:

(a) The two special reviews on counterfeit dollar bills highlighted the need for specific procedures in managing office safes and the need for the Office of Finance and Administration to establish new arrangements for the management and oversight of safes in business units at headquarters and in country offices.

(b) BCPR was found to be highly dependent on a few donors for the continuity of its operations. and needed to develop a strategy for its financial sustainability. Also, an overall 'information technology systems framework' was needed to better support its operations. The audit noted that several systems existed to house similar information, and that some key information could not be retrieved easily, due to inadequate document management. BCPR implemented new business processes after the audit period, but it was premature to assess their effectiveness. Therefore, OAI did not comment on them.

(c) The audit of a DEX project of the Bureau of Development Policy indicated that the expenditure was in accordance with the project document and supported by proper documentation. It also showed that the combined-delivery reports presented a fair view of the operation, and that the transactions were in accordance with the relevant legislative authority, including the UNDP financial regulations and rules, in all material respects.

(d) The audit of the Treasury Division indicated delays in following up outstanding items and clearing them from the bank reconciliation statements. Further, the general ledger in the

[4] In a rolling base calculation, those audit reports accepted as fully implemented in previous updates are not included and newly issued reports are taken into account.

Atlas system was not optimally configured, and contained incorrect balances dating back to January 2004 when balances migrated from 'legacy' systems to Atlas. The segregation of duties needed improvement in the areas of bank reconciliations, deposits operations, investments, and cash management. It was noted that the Treasury Division lacked sufficient resources, and needed additional guidelines to perform its functions effectively.

Follow-up on headquarters audit recommendations

29. As of 31 December 2007, the implementation rate for seven headquarters audits conducted between 2005 and 30 September 2007 was 76 per cent on average, ranging from 24 per cent to 96 per cent.

30. Two long-outstanding recommendations related to Atlas issues involved the formulation of policies such as the asset replacement strategy and revenue recognition, which is dependent on the implementation of the international public sector accounting standards and the Executive Board's decision with respect to a multi-year assets replacement strategy and related funding. The recommendations from the 2005 audit of the post-implementation Atlas environment are not included in the December 2007 follow-up as these are all being reviewed as part of a recent audit of Atlas controls that was ongoing at the end of 2007.

IV. Review of audits of projects executed by non-governmental organizations and/or national governments

31. For fiscal year 2006, total NGO/NEX expenditures amounted to $2.4 billion, of which $2.1 billion (or 87 per cent) was required to be audited in 2007. These expenditures pertained to 1,869 NGO/NEX projects in 121 countries. As of 31 December 2007, OAI had received 1,790 (96 per cent) of the audit reports encompassing NGO/NEX expenditures totalling $2.0 billion. Of those received, OAI reviewed 1,711 audit reports (or 96 per cent), representing $1.7 billion.

32. The review being conducted by OAI covers three areas:

(a) *Audit outcome*. OAI reviews the audit findings contained in the audit reports, including their risks involved, their severity, and their possible impact on the overall management and implementation of NGO/NEX projects. This aspect assesses the NGO/NEX project management.

(b) *Audit scope*. OAI reviews the adequacy of audit coverage in NGO/NEX audit reports based on the minimum requirements set out in the terms of reference given to NGO/NEX auditors. This aspect assesses the local external auditor of the NGO/NEX project.

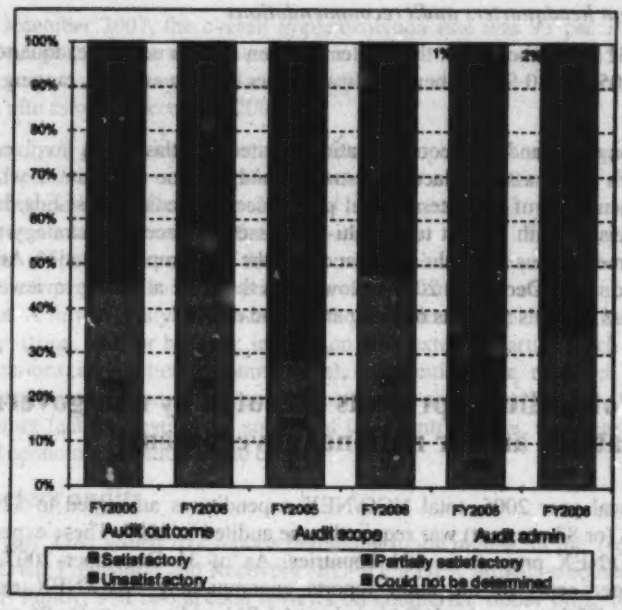
(c) *Audit administration*. OAI reviews how the NGO/NEX audit exercise was performed. This aspect assesses the country office management which administered the audit exercise.

33. The results of the 2007 review (see figure 6) showed that the distribution of the ratings regarding audit outcome was comparable to 2006, indicating a similar severity of the audit observations. However, the average number of audit observations per NGO/NEX audit report has decreased by about 38 per cent, from an average of 1.84 observations per audit report to an average to 1.13, indicating an improvement in the number of audit issues raised per NGO/NEX project.

34. The result of the 'audit scope' showed a noticeable improvement, in that the audit coverage had increasingly become more aligned with the audit terms of reference established by OAI. The review of 'audit administration' also showed a substantial improvement from last year. This

indicated better responsiveness by country offices to OAI requirements in terms of overall administration of the NGO/NEX audits.

Figure 6. Review of NGO/NEX audits conducted in 2006 and 2007 covering fiscal years 2005 and 2006

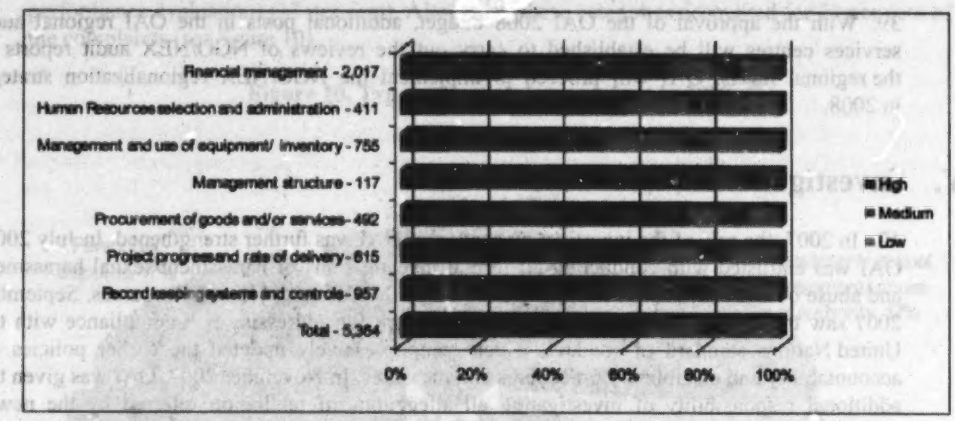


Note: The audits conducted in 2007 pertained to expenditures for fiscal year 2006. The audits conducted in 2006 pertained to expenditure for fiscal year 2005.

NGO/NEX audit issues

35. The NGO/NEX audit issues are categorized by OAI into: (a) financial management; (b) record-keeping systems and control; (c) management and use of equipment/inventory; (d) project progress and delivery; (e) procurement; (f) human resources; and (g) management structure. The audit reports for fiscal year 2006 expenditures generated 5,364 audit issues, 70 per cent of which lay in the areas of financial management; recordkeeping systems and controls; and management and use of equipment/inventory. The majority of the issues (80 per cent) were, however, noted as 'medium-' and 'low-risk'. Most of the 'high-risk' issues (20 per cent) were related to financial management and project progress and rate of delivery (see figure 7).

Figure 7. Distribution and prioritization of NGO/NEX audit issues for fiscal year 2006



36. Financial management issues include: differences in balances between bank accounts and cash books; payments made without appropriate approval; weakness of financial management systems to monitor and manage project expenditures; and differences in reported expenditures among project records, Atlas and combined delivery reports. Issues connected with project progress and rate of delivery include: absence of project reports; incorrect classification of projects in NEX/DEX; non-compliance with execution deadlines; and lack of management and steering committee meetings to monitor and evaluate the project progress.

37. Compared to last year, the top audit issues remained the same. With regard to the causes of audit issues, the analysis showed that non-compliance and lack of guidance or supervision remained the main causes of these audit issues.

Financial impact of qualifications

38. Overall, the NGO/NEX auditors found the project financial statements to be fairly presented and thus issued an unqualified opinion in 1,252 audit reports (or 73 per cent). A total of 332 audit reports (or 19 per cent) had a qualified or adverse opinion or a disclaimer of opinion. Based on available information, OAI further analysed these reports and quantified the direct financial impact of audit qualifications to be $11.8 million, or approximately 0.7 per cent of the total audited NGO/NEX expenditures. The financial impact of these audit opinions has declined from fiscal year 2005 to 2006 (see figure 8) indicating a decrease in the potential financial risks.

Figure 8. Direct financial impact of NGO/NEX audit opinions

	Fiscal year 2005		Fiscal year 2006	
	$ million	% of audited NGO/NEX*	$ million	% of audited NGO/NEX*
Qualified	8.6	0.5%	5.0	0.3%
Disclaimer	2.1	0.1%	6.6	0.4%
Adverse	13.4	0.8%	0.4	0.0%
Total	24.1	1.5%	12.0	0.7%

*NGO/NEX expenditures in the above table refer only to audited expenditures.

Regionalization of OAI reviews of NGO/NEX audit reports

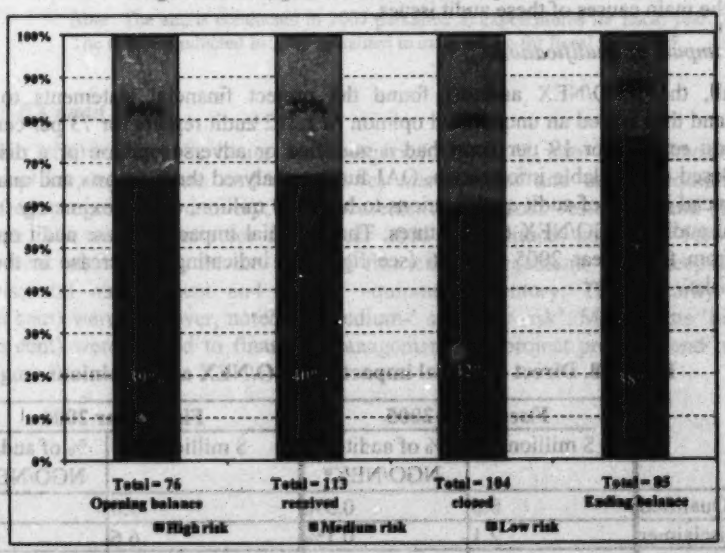
39. With the approval of the OAI 2008 budget, additional posts in the OAI regional audit services centres will be established to carry out the reviews of NGO/NEX audit reports at the regional levels. OAI will proceed to implement the NGO/NEX regionalization strategy in 2008.

V. Investigations

40. In 2007, the role of the investigation section of OAI was further strengthened. In July 2007, OAI was entrusted with conducting all formal investigations of harassment/sexual harassment and abuse of authority cases, previously handled by the Office of Human Resources. September 2007 saw the issuance of the UNDP legal framework for addressing non-compliance with the United Nations standard of conduct, which comprehensively updated the earlier policies on accountability and disciplinary procedures and measures. In November 2007, OAI was given the additional responsibility of investigating all allegations of retaliation referred by the newly established Ethics Office. More importantly, the new legal framework clearly defined the responsibilities of the Director of OAI in: (a) receiving allegations of wrongdoing and managing the UNDP fraud hotline; (b) assessing the need for a preliminary or a formal investigation; (c) carrying out different types of investigations; and (d) forwarding reports to the Legal Support Office (LSO), among other matters.

41. A total of 113 complaints were received by OAI in 2007. Considering the complaints outstanding as of 1 January 2007, OAI focused on those complaints assessed to be 'high-risk/ high-priority' (see figure 9); By 31 December 2007, 83 per cent of the complaints carried forward to 2007 had been closed.

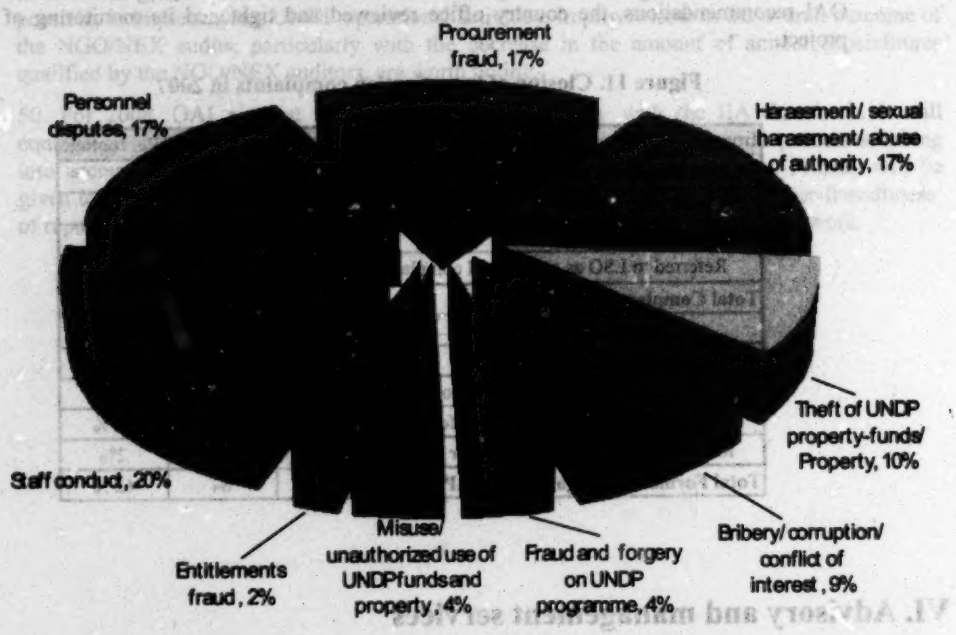
Figure 9. Complaints received and processed in 2007



42. The majority of the 113 complaints received in 2007 pertained to staff conduct (such as insubordination, inappropriate acts, or failure to follow local laws) (20 per cent), harassment/sexual harassment and abuse of authority (17 per cent), procurement fraud

(17 per cent), and personnel disputes (such as those relating to engagement, dismissal, or performance evaluation) (17 per cent). Altogether, these categories accounted for 71 per cent of the complaints (see figure 10).

Figure 10. Types of complaints received in 2007


Procurement fraud, 17%
Personnel disputes, 17%
Harassment/ sexual harassment/ abuse of authority, 17%
Theft of UNDP property-funds/ Property, 10%
Staff conduct, 20%
Entitlements fraud, 2%
Misuse/ unauthorized use of UNDP funds and property, 4%
Fraud and forgery on UNDP programme, 4%
Bribery/ corruption/ conflict of interest, 9%

43. Of the 104 complaints closed in 2007 (see figure 11), 35 per cent were found unsubstantiated and did not require further investigation, while 4 per cent were referred to the Office of Human Resources and LSO. The balance, representing 62 per cent of the complaints, were formally investigated by OAI. After formal investigation, another 25 per cent were found to be unsubstantiated and another 35 per cent were referred to LSO for review (see figure 11).

44. Significant investigation cases in 2007 included:

(a) Loss of $1.3 million to UNDP incurred in a project office due to poor project design and implementation. The investigation report was referred to LSO for review.

(b) Theft involving the refund of duties to UNDP in a country office, amounting to approximately $536,000. The staff members involved have left UNDP, but recovery from the staff members' assets is presently being undertaken.

(c) Two cases of fraud concerning grants from the Global Fund to Fight AIDS, Tuberculosis, and Malaria (GFATM). The procurement of goods and services was found to have been highly irregular, although the actual financial impact could not yet be established. A report has been submitted to LSO for one case. The other is still under investigation. OAI continues to coordinate with national authorities and with GFATM on this matter.

(d) Inappropriate hospitality expenses cla[illegible] by two resident representatives, totaling approximately $27,800. Investigation reports have been submitted to LSO for review.

(e) Allegations of abuse of authority by three country office resident representatives and a senior headquarters staff member. Investigation reports were referred to LSO for review.

(f) Explosion in United Nations premises. OAI facilitated the release from detention of a UNDP staff member who had been wrongly accused of being involved in the incident.

(g) Allegations that UNDP had not adopted appropriate monitoring and safety standards in a disarmament project, thereby causing safety concerns to the local population. Following OAI recommendations, the country office reviewed and tightened its monitoring of the project.

Figure 11. Closing of investigation complaints in 2007

Complaints closed after preliminary investigation		
Closed after review	36	35%
Referred to OHR	2	2%
Referred to LSO as contractual complaints	2	2%
Total Complaints closed	**40**	**38%**
Formal Investigation by OAPR		
Not substantiated after Investigation	26	25%
Investigation report issued and referred to LSO	36	35%
Referred to other UN agencies for action	2	2%
Total Formal Investigation by OAPR	**64**	**62%**

VI. Advisory and management services

45. OAI continued to provide advisory services to all levels of UNDP management at headquarters and in regional bureaux, regional centres and country offices. It reviewed agreements between UNDP and its development partners, such as multi-donor agreements, cost-sharing agreements, letters of agreement, and letters of understanding. OAI also continued to review and provide comments and advice on audit clauses in various financing agreements.

46. During the year, OAI took the opportunity to share with other UNDP staff key and recurrent audit issues and 'lessons learned' from audits through presentations in regional workshops and cluster meetings.

VII. Overall conclusion and outlook

47. In providing assurance to the Administrator and the Executive Board, OAI has exercised both independence and objectivity. These are the two most important factors that make an internal oversight function credible. The excellent working relationship with BOA, the advice provided by the Audit Advisory Committee, and the support received from UNDP senior management have helped OAI to effectively discharge its functions, thereby also improving the overall corporate governance and accountability system in UNDP.

48. The internal audits conducted in 2007 drew the attention of management to areas requiring closer oversight, such as those relating to development services, financial resources,

procurement, and human resources administration. Applying audit risk assessment methodology for the planning of audits and investigations optimized the use of limited OAI resources.

49. The review of NGO/NEX audit reports for fiscal year 2006 continued to draw the attention of both country office management and national governments to operational risks and weaknesses. This facilitates the identification of areas needing capacity development, which will in turn strengthen the national execution modality and encourage its use, to the fullest extent possible, in implementing UNDP operational activities. Improvements in the overall outcome of the NGO/NEX audits, particularly with the decrease in the amount of annual expenditures qualified by the NGO/NEX auditors, are worth noting.

50. For 2008, OAI aims at achieving general conformity with the IIA *Standards*. It will continue to strengthen its audit and investigation capacities and streamline its processes, taking into account the recommendations of the external quality assurance review. Priority will be given to enhancing the timeliness of report issuance and the relevance and 'reader-friendliness' of reports, and to developing more guidance and tools for audit and investigations work.